

Message Text

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NSAE-00 OPIC-06 SP-02 TRSE-00 CIEP-02 LAB-04 SIL-01

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TO SECSTATE WASH DC IMMEDIATE 6115

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UNCLAS SECTION 01 OF 03 OECD PARIS 07180

E.O. 11652: N/A

TAGS: ETRD, OECD

SUBJECT: XCSS TASK FORCE ON RAW MATERIALS:
OUTLINE FOR PRELIMINARY REPORT

REF: OECD PARIS 06960

SECRETARIAT HAS PROVIDED MISSION WITH PROPOSED OUTLINE FOR TASK FORCE'S PRELIMINARY REPORT ON "PROBLEMS OF INDUSTRIAL RAW MATERIALS," TEXT OF WHICH IS TRANSMITTED BELOW. OUTLINE ENVISAGES THREE SECTIONS IN REPORT (SITUATION OF INDUSTRIAL RAW MATERIALS, SUMMARY OF MAIN ISSUES, AND POLICY OPTIONS) PLUS ANNEX CONTAINING PAPERS ON FIVE ILLUSTRATIVE COMMODITIES (COPPER, TIN, IRON ORE, WOOL, RUBBER). DEPSEC GEN ELDIN HAS MENTIONED COMMODITY ANNEXES AS PLACE WHERE US CONTRIBUTION WOULD BE PARTICULARLY USEFUL. WE STRONGLY RECOMMEND US PROVIDE SECRETARIAT WITH PAPER OR PAPERS ON COMMODITIES OF INTEREST TO US AS SOON AS POSSIBLE.

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BEGIN TEXT:

1. THE SITUATION OF INDUSTRIAL RAW MATERIALS

(A) SCOPE OF THE STUDY AND GENERAL CHARACTERISTICS:

- (I) DEFINITIONS AND COVERAGE;
- (II) THEORETICAL AND ECONOMIC CHARACTERISTICS.

(B) ROLE OF RAW MATERIALS IN OECD ECONOMIES,
GLOBALLY AND BY INDIVIDUAL COUNTRIES:

- (I) PRODUCTION CHARACTERISTICS AND
CONCENTRATION;
- (II) FOREIGN TRADE IN INDUSTRIAL RAW MATERIALS;
- (III) CONSUMPTION PATTERNS.

(C) THE ROLE OF RAW MATERIALS IN OECD ECONOMIC
RELATIONS WITH THIRD COUNTRIES:

- LONG-TERM SHIFTS IN THE LOCATION OF
PRODUCTION;
- LOCATION OF PROCESSING ACTIVITIES;
- GEOGRAPHICAL CONCENTRATION OF SUPPLIES AND
THE SECURITY OF SUPPLIES;
- THE ROLE OF MULTINATIONAL COMPANIES;
- PRODUCERS' ACTION.

(D) MAJOR DEVELOPMENTS SINCE 1950:

- (I) LONG INVESTMENT CYCLES (KOREAN WAR STOCK-
PILING FOLLOWED BY HEAVY INVESTMENT IN
50'S, OVER-PRODUCTION AND UNDER-INVESTMENT
IN THE 60'S. THE ORIGINS OF THE 1950-52
AND 1973-74 COMMODITY BOOMS).
- (II) THE EFFECTS OF THE 1973-74 BOOM: COSTS,
INCOME DISTRIBUTION AND BALANCE OF PAYMENTS,
USERS' STOCKS, PRICE EXPECTATIONS AND
SPECULATION, DIFFERENTIAL CHANGES IN

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UNDERLYING COST LEVELS OF PRODUCERS, IMPACT
OF ENERGY CRISIS.

(E) OUTLOOK FOR INDUSTRIAL RAW MATERIAL PRICES AND
INVESTMENT:

- SHORT-TERM CONSIDERATIONS;
- LONGER-TERM CONSIDERATIONS.

2. SUMMARY OF MAIN ISSUES (FUNDAMENTALS OF THE SITUATION: POTENTIAL CONFLICTS OF INTEREST BASED ON VARYING DEPENDENCE OF COUNTRIES ON RAW MATERIALS WHETHER AS IMPORTERS OR EXPORTERS, AND CONVERGENCE OF INTERESTS WITH REGARD TO LONG-TERM STRUCTURAL BALANCE BETWEEN PRODUCTION AND CONSUMPTION).

(A) SHORT-TERM CAPACITY TO ADJUST TO FLUCTUATIONS
IN SUPPLY AND DEMAND - ADEQUACY OF SAFETY MAR-
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GINs (STOCKS: UNUSED CAPACITY).

- (B) LEVELS OF PRICES: POSSIBLE CYCLE OF LONG-RUN
INADEQUATE PRICES LEADING TO UNDER-INVESTMENT
(IN EXTRACTIVE AND/OR PROCESSING CAPACITY);
EXCESSIVE PRICES LEADING TO SUBSTITUTION.
- (C) VOLATILITY OF PRICES - SYMPTOM OF DISEQUILIBRIUM; INFLUENCE OF SPECULATION.
- (D) PROCESSES OF PRICE FORMATION: DIFFERENCES IN
MARKET STRUCTURES (NEED FOR INDIVIDUAL STUDY).
- (E) ROLE OF THE MARKET AS DISCIPLINARY FORCE
(RELATIONSHIP BETWEEN PRICE MOVEMENTS, INCLUDING
EXTREME SWINGS, AND EFFICIENT LONG-RUN
ALLOCATION OF RESOURCES).
- (F) (I) ACCESS TO CONSUMING MARKETS;
(II) SECURITY OF SUPPLY.
- (G) LOCAL PROCESSING.
- (H) PARTICULAR PROBLEMS OF DEVELOPING COUNTRIES:
DOMESTIC ECONOMIES AND FUTURE DEVELOPMENT BOTH
HEAVILY DEPENDENT ON EXPORTS OF RAW MATERIALS,
AND HIGHLY VULNERABLE TO EFFECTS OF VARIATIONS
IN PRICES; GENERALLY, ARGUMENTS FOR SPECIAL
TREATMENT, PARTICULARLY IN THE UNCTAD AND GATT.

3. POLICY OPTIONS

- (A) IS ACTION NEEDED?
 - (I) COST/BENEFIT COMPARISONS OF ACTION AND OF
INACTION IN RAW MATERIALS FIELD.
 - (II) PAST EXAMPLES (TIN, HARD FIBRES, JUTE).
 - (III) ALTERNATIVES: PRODUCER ACTION; CONSUMER
ACTION, JOINT ACTION.

- (B) TECHNIQUES OF INTERVENTION

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- (I) DIRECT DEALING ON MARKETS BY STOCK BUILDING AND DISPOSAL - FINANCING ISSUES.
- (II) INDIRECT ACTION ON MARKETS - SCOPE FOR
CONTRACTUAL RELATIONS; AGREED EXPORT/
IMPORT QUOTAS; UNILATERAL EXPORT/IMPORT
RESTRICTION; MAXIMUM/MINIMUM PRICES;
MARKET SHARING, ETC.

(III) LONG-TERM ACTION INFLUENCING INVESTMENT
PLANS.

(C) SCOPE AND CONTENT OF COMMODITY AGREEMENTS

- (I) OBJECTIVES - MARKET STABILIZATION; ACCESS
TO MARKETS AND SUPPLIES; LOCAL PROCESS-
ING.
- (II) WIDE CHOICE OF MECHANISMS WITHIN AGREE-
MENTS - VARIOUS COMBINATIONS OF TECHNI-
QUES LISTED UNDER 2 ABOVE.
- (III) PARTICIPATION: CAN INVOLVE PRODUCERS
AND CONSUMERS, OR BE LIMITED TO EITHER
CATEGORY.
- (IV) CONDITIONS FOR SUCCESS - NEED FOR SANC-

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TIONS TO SUPPORT COMMITMENTS; STOCKS IN

SUPPORTING ROLE.

(D) SPECIAL ACTION FOR DEVELOPING COUNTRIES

(I) RELATIONS BETWEEN COMMODITY POLICIES AND
REAL RESOURCE TRANSFERS;

(II) POSSIBILITY OF SELECTING POLICIES WITH
BENEFICIAL EFFECTS FOR DEVELOPING COUNTRIES
(ACTION ON SELECTED PRODUCTS: PREFERENTIAL
TREATMENT).

(III) POSSIBILITY OF ORIENTING POLICIES TO SPE-
CIAL SITUATION OF DEVELOPING COUNTRIES
(FAVORABLE QUOTAS: DISPENSATION FROM
FINANCIAL CONTRIBUTIONS).

(IV) CONSIDERATION OF DEVELOPING COUNTRIES'
REQUESTS NOTABLY IN UNCTAD AND IN GATT
(INTEGRATED PROGRAM....).

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4. ANNEX. THE ANNEX WILL CONTAIN POSITION PAPERS HIGH-
LIGHTING SALIENT FEATURES OF MAJOR INDIVIDUAL COMMODITIES
RELEVANT FOR POLICY OPTIONS AND TECHNIQUES. FIVE
COMMODITIES HAVE BEEN SELECTED IN THE FIRST INSTANCE -
COPPER, TIN, IRON ORE, WOOL, RUBBER - TO PRESENT A
FAIRLY BALANCED PICTURE OF THE MAIN ECONOMIC AND POLI-
TICAL ISSUES.

STANDARD OUTLINE FOR POSITION PAPERS ON INDIVIDUAL
COMMODITIES

(A) TECHNOLOGICAL CHARACTERISTICS

- NATURE OF PRODUCT (QUALITY DIFFERENCES AND
STAGES OF PRODUCTION);
- METHODS OF PRODUCTION;
- IMPORTANCE OF SUBSTITUTES AND RECYCLING.

(B) STRUCTURE OF INDUSTRY

- DEGREE OF CONCENTRATION;
- VERTICAL INTEGRATION;
- IMPORTANCE OF TECHNOLOGY.

(C) GEOGRAPHICAL DISTRIBUTION OF RESERVES, PRIMARY
PRODUCTION, PROCESSING AND RECYCLING.

(D) FINANCIAL STRUCTURE.

- MAIN COMPANIES.

(E) MARKETING STRUCTURES.

- PRODUCERS' OR MARKET PRICES' LONG TERM CON-

TRACTS, COMMODITY AGREEMENTS AND STATE
INTERVENTION.

(F) TRADE POLICIES - INCLUDING THOSE OF EXPORTING
COUNTRIES.

(G) RECENT DEVELOPMENTS IN PRODUCTION, INVESTMENT,
CAPACITY, INVENTORIES AND PRICES.

(H) INVENTORY OF INTERNATIONAL BODIES ACTING IN
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THE AREA AND THE STATUS OF DISCUSSIONS ON
COMMODITY AGREEMENTS AND RELATED ISSUES.
END TEXT.
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